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STATE FOR NEA/ELA AND EEB

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TAGS: ECON EFIN EAID JO

SUBJECT: Jordan Secures \$300 Million World Bank Loan to Help Close Budget Gap

REFS: A) Amman 1985
B) Amman 1955
C) Amman 1942
D) Amman 1932
E) Amman 1646

¶1. (U) Ministry of Finance officials confirmed to the press on September 8 that Jordan will receive \$300 million in soft loans from the World Bank in the fourth quarter of this year to address its increasing budget deficit (ref E). Finance Minister Bassem Salem explained that under the terms of the agreement, Jordan will have a long grace period, a low interest rate, and a long-term settlement period. He attributed the decision to finance the deficit through external debt to two reasons: to lower interest rates in Jordan, and to create conditions for the private sector to obtain credit from local banks. Salem emphasized that the loan will not be used to further increase spending on capital expenditures in the budget (ref E). The loan, however, will increase Jordan's total public debt, which at the end of July 2009 reached \$12.9 billion, 56.5% of the projected GDP for 2009. The total increase of public debt was \$860 million, 7.1% higher than the 2008 end-of-year figure of \$12 billion.

¶2. (U) Jordan is in the midst of a budget crunch (refs D and E). According to the Ministry of Finance, the budget deficit in the first seven months of 2009 reached \$903 million, a huge increase over the \$127 million deficit during the same period in 2008. Many factors have contributed to this deficit increase. Foreign aid in the first seven months of the year dropped 65% to \$144 million from \$415 million during the same period the previous year. Domestic revenues dropped \$193.5 million from \$3.92 billion in 2008 to \$3.7 billion, a 5.1% drop. Public spending also vastly increased early in 2009, but the GOJ has since reduced capital expenditure spending by \$212 million (ref E).

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